

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding the  
Implementation of the Suspension of Direct  
Access Pursuant to Assembly Bill 1X and  
Decision 01-09-060.

Rulemaking 02-01-011  
(Filed January 9, 2002)

**ADMINISTRATIVE LAW JUDGE'S RULING  
CONCERNING MODELING ASSUMPTIONS IN THE  
DIRECT ACCESS/DEPARTING LOAD  
COST RESPONSIBILITY CALCULATIONS**

This ruling provides guidance to the Department of Water Resources (DWR) and its modelers, Navigant, Inc. (Navigant), concerning modeling assumptions and conventions to use in finalizing the Cost Responsibility Surcharge (CRS) obligations applicable to Direct Access (DA) and Departing Load (DL) for 2001-02 and 2003. (Finalization of 2004 amounts will be addressed at a later time).

In connection with its preliminary calculation of 2001-2002 CRS undercollections and forecasts of 2003-2004 CRS accruals, on December 14, 2003, DWR sent a report to the Commission and parties describing the basis for its calculations and limitations of its analysis. DWR indicated that it needed additional Commission direction on certain issues before it could present final calculations. As a result, DWR did not submit revised CRS calculations, but sought further direction on these issues before final modeling of the CRS amounts.

In response to DWR's request, the directions below are provided. These directions are merely for the purpose of Navigant's running its model to calculate DA/DL CRS obligations for the 2001-03 periods. Nothing in this ruling is intended to prejudge policies or positions that the Commission may adopt in its ultimate order concerning DA/DL CRS obligations.<sup>1</sup>

The CRS calculations apply both to DA customers as well as Customer Generation Departing Load (CGDL) and Municipal Departing Load (MDL). The applicability of a DWR power charge depends upon the relevant classification of the customer group involved, including reference to the governing provisions adopted in D.03-04-030 (for different categories of Customer Generation DL) and D.03-07-028 (for categories of Municipal DL). Since both DA and DL customer groups to bear their fair share of cost responsibility, applicable DA and DL load must be identified by the IOUs and utilized in the modeling runs to determine

Based on the guidance herein, DWR/Navigant is directed to run of the CRS calculations, and to serve the results on parties. After that, a teleconference call will be scheduled for parties to ask questions and comment, as warranted.

**1. Should non-exempt departing load volumes be included in the CRS indifference calculation?**

DWR expresses uncertainty as to whether departing load volumes should be counted as migrating load for purposes of measuring bundled customer indifference for the DA/DL CRS calculations.

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<sup>1</sup> Likewise, nothing in this ruling relating to Departing Load should be construed in any way as prejudging the limited rehearing of D.03-07-028.

**Direction:**

In view of the immaterial impact of DL volumes on the overall calculation at least for 2001-2003, Navigant is directed to include such DL volumes in the overall DA CRS calculation at least for the 2001-2003 periods. This approach is not intended to set a precedent for future periods or to prejudge the merits of parties' arguments concerning how DL volumes should be handled in future periods. The 2001-03 inclusion would only be an administrative expedient to expedite finalization of the CRS obligations. In view of potential load growth in future years, however, the effects of lumping DA/DL volumes together could be more material in the future. Thus, a different approach may be necessary for future years – e.g., separating DL into a separate component from the DA indifference calculation. Thus, the Commission can revisit the treatment of DL in the CRS calculation for subsequent years.

**2. Should DA load migration used in the Indifference Shortfall calculation remain fixed over time or vary with changes in DA load?**

DWR notes that although D.02-11-022 concluded that the “comparison of the difference in costs between incremental DA load in and out between July 1, 2001 and September 20, 2001” is the most appropriate measure of bundled customer indifference, the decision did not specify how this indifference in load should be measured on an ongoing basis.

Because DA load migration varies over time, DWR states that this fact must be taken into account in the indifference calculation. Navigant presented four possibilities for addressing this issue:

1. DA load is calculated as of July 1, 2001 and September 20, 2001 and the difference in loads becomes the fixed volume of load migration, used on an ongoing basis in the indifference calculations.

2. The load of customers on DA as of July 1, 2001 and September 20, 2001 is tracked monthly, so that the indifference shortfall in a particular period is based on the *current* load of each group.
3. Apply the July 1, 2001 and the September 20, 2001 DA load percentages to current bundled volumes to produce the migrating load used to calculate the indifference shortfall.
4. Apply the July 1, 2001 DA load percentage and the current DA load percentage to the current bundled volumes to produce the migrating load used to calculate the indifference shortfall.

The second and fourth possibilities were the ones parties supported in their comments. Navigant supports the fourth option, only because it is not sure whether all three IOUs can readily provide July 1, 2001 DA customer's current load level, as would be required under the second possibility.

**Direction:**

Navigant is directed to use the second option, after receiving the required data from each IOU. SCE has already provided the necessary information to Navigant to make this calculation. PG&E indicates that it can provide this information. SDG&E is also directed to promptly provide the necessary information to Navigant to make this calculation.

**3. Should the CRS be subject to an annual true-up or determined solely on a prospective basis?**

DWR believes that an annual true up is needed to insure that neither bundled nor DA/DL customers are unfairly burdened by over or undercollections of CRS costs. The parties express support for an annual true up.

**Direction:**

The CRS shall be subject to an annual true up, as proposed by DWR and supported by parties. Any over or undercollection of CRS would thus be tracked

and taken into account in setting prospective annual requirements for DWR power charges. Truing up the CRS obligations annually allows parties to eventually view the actual data that was used in the indifference calculations. This should help appease concerns about the confidential nature of the data that has prevented parties from currently viewing the model.

**4. Which CTC Rates Should be Used in the CRS calculation for 2001-02 and 2004?**

The IOUs provided estimates of CTC based on the 2003 market benchmark established in D.02-11-022. DWR states that the CTC rates for 2001, 2002, and 2004 also are also required, however, to calculate the undercollection and 2004 accrual rates.

PG&E believes that for 2001-2002, no CTC is required, and that its ERRA proceeding should determine its 2004 CTC. Edison maintains that the Commission must decide on a CTC rate for 2001-2002 and that its 2004 CTC rate should be finalized in its ERRA proceeding.

**Direction:**

For purposes of its modeling, DWR should use the CTC inputs that have been provided by the IOUs. The ERRA proceeding has been designated as the place for review of prospective CTC issues.

**5. Should SDG&E's CTC be derived using the market benchmark or just using the established rate?**

SDG&E has an established CTC rate. For SDG&E, DWR believes it is appropriate to use the established CTC rate rather than derive one from the market benchmark.

**Direction:**

Navigant should apply the currently established CTC rate for SDG&E.

**6. What CTC revenues should be used to offset CTC responsibility in 2001-02?**

DWR requests clarification concerning the treatment of certain CTC revenues paid by DA or DL customers during 2001-02, noting that each utility's situation was different regarding CTC collections:

- **SDG&E** was collecting CTC revenue from DA customers. As a result, SDG&E should not have a CTC undercollection.
- **SCE** was not collecting any CTC revenues, therefore all CTC responsibility for DA and DA in 2001-2002 should be considered un-collected.
- **PG&E** collected some CTC revenues from direct access customers. AReM cites the 1 cent surcharge paid by PG&E's DA customers and requests that it be credited back to PG&E's DA customers in order to lower their 2001-2002 CRS undercollection to \$150 million.

**Direction:**

As noted in comments filed July 7, 2003, SCE previously provided DWR recorded numbers for its Utility Retained Generation (URG) for 2001 and 2002, and indicates that those numbers remain unchanged. DWR is directed to use the recorded numbers provided by SCE as the basis for any applicable 2001-02 undercollection.

The treatment of the one-cent surcharge paid by DA customers to PG&E was resolved by D.04-02-062 (Opinion Approving a Rate Design Settlement Lower PG&E's Rates by \$799 Million). D.04-02-062 determined that past contributions by DA customers through payment of the one-cent surcharge during 2001-02 "shall be deemed the full and final obligations of these customers

to PG&E's headroom." Under the adopted settlement, no customer class will have past payments credited back to it.

SCE proposed to use recorded URG costs to calculate CTC for 2001-02 and to provide its own independent forecast for 2003 costs, rather than using either of the forecast sources proposed by California Manufacturers & Technology Association (CMTA) or PG&E. In its comments filed August 22, 2003, SCE proposed to supplement the record for finalizing the DA cost obligation by submitting testimony on URG costs to include: (1) recorded URG expenses for 2001 and 2002, including employee-related transition costs, and (2) forecast fuel and purchased power expenses for 2003. SCE also proposes to include a forecast of its URG costs for 2003 based on its General Rate Case filing, its 2003 authorized SONGS ICIP revenue requirement, and its April 1, 2003 ERRA filing.

**7. How should "New World" generation be considered in the CRS indifference calculation?**

"New World" generation refers to contracts and generation resources that the IOUs acquired since they resumed their responsibilities for power procurement. Since the "new world" generation costs may be higher than the costs of resources on the spot market, including its full costs may increase the CRS amount. DWR indicates that it presently excludes new world generation in the indifference calculation by pricing new world volumes at the market benchmark price. As a result, portfolio costs do not become inflated by the cost of new world power if it is higher than the cost of spot market power.

Other parties proposed different approaches in their comments, as follows:

1. PG&E: Include New World URG volumes and costs in the indifference calculations.

2. TURN: Exclude NEW World URG volumes and costs in the indifference calculations.
3. CLECA: Exclude New World URG costs in the indifference calculation

DWR requests direction whether its approach is acceptable.

**Direction:**

From the descriptions provided of their proposals, it is not clear exactly how the DWR proposal would treat “new world” generation, and how its proposed approach differs from what TURN and CLECA propose as the preferred treatment. It is not clear whether Navigant is running its production cost model with new world URG at benchmark cost or using the benchmark cost *after* the runs are completed. Therefore, to provide a fuller understanding of the different impacts of the proposed approaches of DWR, TURN, and CLECA, DWR’s is directed to perform parallel runs, under (1) its own proposed treatment and (2) the CLEC/TURN proposed treatment of “new world” generation resources.

**IT IS RULED** that:

1. Department of Water Resources (DWR)/Navigant, Inc. (Navigant) is provided direction as set forth above in response to each of the questions propounded in its January 16, 2004, comments.
2. DWR/Navigant is directed to produce runs of the Direct Access and Departing Load (DA/DL) Cost Responsibility Surcharge (CRS) obligations for 2001-2003, utilizing the assumptions and/or approaches consistent with the directions provided above. The results of the runs shall be filed and served on parties on May 26, 2004.



3. Upon receipt of the model runs, a telephonic conference call will be scheduled, as needed, for parties to ask questions and/or comment upon the Navigant model run.

4. Upon receipt of the model run, and input from any telephonic conference call, further measures will be determined, as necessary, as a basis to prepare a Commission order adopting the DA/DL CRS obligations for 2001-03.

5. The utilities shall provide any necessary supporting data and/or cooperation to Navigant as needed to expedite completion of the model runs.

Dated May 5, 2004, at San Francisco, California.

/s/ THOMAS R. PULSIFER

Thomas R. Pulsifer  
Administrative Law Judge

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of the original attached Administrative Law Judge's Ruling Concerning Modeling Assumptions in the Direct Access/Departing Load Cost Responsibility Calculations on all parties of record in this proceeding or their attorneys of record. In addition, service was also performed by electronic mail.

Dated May 5, 2004, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid

**N O T I C E**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.